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FISCAL POLICIES MANUAL

GENERAL ACCOUNTING: CASH & CASH EQUIVALENTS DEPOSIT LIABILITIES

PREFACE

The purpose of this policy is to improve the accountability of all cash and non-cash assets and the related liabilities by ensuring that they are recorded on the State accounting system. Often the State requires a third party to post collateral, generally in the form of cash, cash equivalents, or securities as an endorsement of certain activities, such as land reclamation or construction, will be performed. The asset may be returned to the third party or, if default occurs, become property of the State. When the asset is received by the State, it is not possible to determine if a default will occur. It is assumed in good faith that all obligations will be met by the outside party, and the asset will revert to the original owner. Therefore, a liability rather than revenue is recorded at the time the State receives the asset.

The State does not have a fiduciary responsibility for these assets beyond their return to the third party upon satisfactory completion of the commitment.

DEFINITIONS

Cash Equivalents - short-term highly liquid investments that are readily convertible to known amounts of cash. Examples of cash equivalents are certificates of deposit, money market accounts, and short-term bonds.

Securities - a negotiable or nonnegotiable instrument that signifies an ownership interest, the right to an ownership interest or creditor status. Examples of securities include stocks, government securities, and surety bonds.

Deposit Liability - assets held as security or collateral but will likely be returned to businesses, individuals, etc.

POLICY

In order to properly account for and ensure safekeeping of all cash held by the State as collateral, it will be placed on deposit with the State Treasurer, unless otherwise specified by law. Other securities or cash equivalents may be placed on deposit with the State Treasurer, other fiduciary agent, or retained by the agency. In all instances the receipt or return of deposit liabilities will be recorded in STARS as a liability in the fund used to account for the financial activities which necessitated the deposit or bond. Interest earned on the investment of cash by the State Treasurer will become revenue to the State, unless statutory exemptions apply. The outside entity will retain all earnings on other instruments, e.g., certificates of deposit.

FISCAL IMPACT

This policy may increase transactions in STARS.

ADMINISTRATIVE PROCEDURES

If cash is collected as a deposit liability, it must be deposited with the State Treasurer in accordance with Idaho Code and recorded in STARS accordingly.

In the instance of receiving cash equivalents or securities, the collecting agency will record the value of the instruments, either individually or as a collective total, in STARS. Physical custody of the instrument may be with the agency, State Treasurer, or other fiduciary agent. At the time the security is returned to the original owner, the corresponding liability in STARS should be reduced.

The agency will maintain individual accounts for those assets held by the State for third parties. The accounts should be reconciled periodically, no less than annually. All records must be available for audit.

Should a default or other circumstance occur causing a non-cash asset to become property of the State, the asset should be converted to cash in as short a time frame as possible, following appropriate procedures or guidelines. Transactions should be recorded in STARS to reflect the transfer of ownership of the asset.

NOTE: See also Funds Held as an Agent.